

Message Text

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 NSCE-00 SP-02 L-01 EB-04

OMB-01 TRSE-00 INR-05 CIAE-00 NSAE-00 INRE-00

SSO-00 /036 W

-----004894 071429Z /47

O R 071403Z MAR 78

FM AMEMBASSY LISBON

TO SECSTATE WASHDC IMMEDIATE 4960

INFO AMEMBASSY BONN

C O N F I D E N T I A L LISBON 1680

LIMDIS

E.O. 11652: XGDS-3

TAGS: ECON, EAID, EFIN, PO

SUBJECT: GOP-IMF NEGOTIATIONS

REF: A) LISBON 1624 B) LISBON 1623

1. ECON COUNSELOR MET WITH GERMAN EMBASSY ECON COUNSELOR TUESDAY, MARCH 7 TO DISCUSS REF SUBJECT. IN DISCUSSING THEIR RESPECTIVE CONVERSATIONS WITH MINISTER OF FINANCE CONSTANCIO, THEY CONCLUDED THAT THEY HAD BOTH BEEN GIVEN THE SAME INFORMATION WITH ONE SIGNIFICANT EXCEPTION. CONSTANCIO HAD TOLD US THAT THE IMF HAD, AFTER SOME DISCUSSION, RECOMMENDED A 10 PERCENT DISCRETE DEVALUATION AND A SUBSEQUENT CRAWL, THEREBY ACHIEVING AN AVERAGE 21 PERCENT DEVALUATION FOR THE YEAR. THE GERMAN COUNSELOR TOLD US CONSTANCIO HAD TOLD HIM THAT THE IMF MISSION HAD RECOMMENDED A 21 PERCENT DISCRETE DEVALUATION. WE ARE INCLINED TO BELIEVE THAT THE VERSION GIVEN US IS MORE ACCURATE AND THAT CONSTANCIO, EITHER BECAUSE OF THE PRESSURE OF TIME OR BECAUSE OF LANGUAGE PROBLEMS, DID NOT CONVEY HIS MESSAGE CLEARLY TO THE GERMANS.

2. BOTH ECON COUNSELORS CONCLUDED THAT THE IMF POSITION
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HAS HARDENED SINCE OCTOBER/NOVEMBER 1977. IT IS NOW ASKING FOR A 7 PERCENTAGE POINT INCREASE IN INTEREST RATES AS OPPOSED TO 5 POINTS REQUESTED LAST YEAR, AND IS RECOMMENDING A 21 PERCENT AVERAGE DEVALUATION RATHER THAN THE PREVIOUSLY RECOMMENDED 18 PERCENT. THE GERMAN COUNSELOR AGREED THAT CONSTANCIO HAD NOT EXPECTED, AND WAS NOT PREPARED, TO DISCUSS DETAIL WITH THE FUND LAST WEEK.

3. GERMAN COUNSELOR CONCURRED THAT GOP, FOR BOTH PSYCHOLOGICAL AND ECONOMIC REASONS, REQUIRES A PROMPT AGREEMENT WITH THE IMF. HE HAD ALSO COME AWAY FROM HIS CONVERSATION WITH CONSTANCIO, HOWEVER, WITH THE FEELING THAT THE FUND MIGHT NOT RESPOND RAPIDLY TO A GOP INVITATION TO RESUME NEGOTIATIONS. GERMANS HAVE INFORMED BONN AND FRG EMBASSY IN WASHINGTON OF CONVERSATION WITH CONSTANCIO, BUT HAVE RECEIVED NO REACTION.
BLOOMFIELD

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NNN

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